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How Have Families with Children Been Faring?

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Introduction

This paper presents the factual basis with which to evaluate changes in the incomes of families with children during the recent past. We analyze changes not only in family income on average, but also in incomes at a variety of positions along the income distribution; we provide comparisons of current and past economic performance; and we examine the changing sources of family income.

Because averages summarize the diverse experiences of all families, they obscure the wide variety of individual experiences. Average family income can increase, even though the incomes of a majority of families decline, if the incomes of the minority increase sufficiently. An increase of this nature may be perceived very differently than a smaller, but widely shared, improvement in income. Furthermore, one's evaluation of two such divergent cases may depend upon which families gained and which lost. If the minority that experienced large income increases contained the poorest families, one's evaluation might differ from the case in which the richest families gained. As a result, this study focuses on changes in family income both on average and at a variety of positions along the income distribution.

The second issue we emphasize is the contrast between current and past economic performance. A small annual growth rate, even if it is sustained over a long period, may be perceived as unsatisfactory if it follows a period of even higher sustained growth rates. Thus, although

the focus of this study is on the 1967-1984 period, we also provide comparisons with the experience of the prior two decades.

We do not analyze year-to-year income fluctuations, or even fluctuations over relatively short periods of years, because of our interest in long-run changes in family income. Although incomes may grow rapidly in the short run as the economy recovers from recession, the relevant point of comparison is the relationship between family income in the post-recession period and that in the pre-recession period. It is true, by definition, that post-recession incomes are, on average, higher than they were during the recession.

The third factor we consider in evaluating changes in the incomes of families relates to changes in the sources of income. An increase in income generated by higher wage rates has different implications from one generated through increased hours of work--increased work reduces time available for leisure and/or work in the home, while higher wages increase incomes without reducing available time. This study emphasizes two income sources which have become increasingly important in recent years--the earnings of wives, which affect total family income as well as time available for leisure and home activities; and government cash transfers, which affect income without requiring additional work effort.

This study focuses on the following questions:

- How did real mean incomes for families with children change during the 1967-1984 period? How did the experience of families in this period differ from that of families in the prior two decades?

- How have poverty and income inequality changed? What has happened to the differences among lower-income, middle-income, and upper-income families?

- How have the sources of family income changed? What have been the contributions of husbands' earnings, wives' earnings, and government cash transfers?

Before presenting detailed information, we provide a broad picture of changes in the economic well-being of families.

Overview

To appreciate how the economy has performed in the recent past, it is useful to contrast this experience with that of the 1950s and 1960s. The 1949-1959 decade was characterized by moderate economic growth. The average income of all persons (as measured by real per capita disposable income) rose in all but two years, achieving an annual real growth rate of 2.0 percent. During the 1960s and early 1970s, economic growth accelerated. Between 1959 and 1973 there were fourteen consecutive years of growth in real disposable income per capita, averaging 3.6 percent per year.

The high rates of growth of the 1960s and early 1970s have not been sustained, however. During the eleven years from 1973 to 1984, real disposable income per capita dropped in three years—1974, 1980 and 1982. The annual rate of real growth since 1973 declined to 1.9 percent, just a little more than half the growth rate of the 1959-1973 period.

Disposable income per capita provides an annual measure of aggregate changes in average living standards. It does not, however, provide the detail necessary to examine trends in well-being for families of different types or trends in the sources of family income. The Census Bureau does provide such data, which we use in this paper, but its definitions of income and of the family unit are different.[1]

Despite these differences, the changes in average family income reflected in the Census data are similar to the aggregate economic trends discussed above. As disposable income per capita increased, so did average family income. The major exception is for the 1973-1984 period, when disposable income per capita increased but mean family income decreased.

We turn now to a brief summary of our major findings for families with children:

- Average real income increased between 1967 and 1973 and declined between 1973 and 1984. The increases were smaller and the decreases larger for female-headed than for two-parent families. Mean real incomes in 1984 were below the 1967 level for female-headed families but somewhat above the 1967 level for two-parent families.

- These income changes are in stark contrast to those of the 1949-1969 period, when incomes grew rapidly for all types of families. In addition, income growth rates for post-1967 cohorts were lower than they were for cohorts of similar ages during the 1949-1969 period.

- The entire 1967-1984 period was one of rising income inequality, with large income declines for the bottom 40 percent of families and income increases for the top 40 percent. The mean income of all quintiles was lower in 1984 than in 1973. This is in sharp contrast to the 1949-1969 period, when inequality declined somewhat.

- Poverty for families with children has increased over the 1967-1984 period because of the growth in the number of female-headed families, the increased incidence of low earnings among male heads of families, and the decline after 1973 in the real value of cash transfers per pretransfer poor family.

- The disappointing experiences of families over the recent past would have been even worse had it not been for the increased earnings of wives and of women heading households. Without those earnings, the family income increases of two-parent families would have been smaller and the income decreases of female-headed families would have been larger.

- The earnings of wives raised mean family income, reduced poverty, and increased the income shares of the bottom quintile. All of these effects increased between 1967 and 1984.

- Although the real level and poverty-reducing effects of cash transfers have declined since 1973, transfers still reduce poverty significantly.

We now turn to a detailed examination of the data.

Recent Changes in Real Family Income

Families with children, the subject of this study, constitute a declining minority of all households, but still account for a majority of all persons. For example, 45 percent of all households in 1967, but only 35 percent in 1984, contained a child under 18 years of age. Because families with children contain more persons than the typical household, the 35 percent of households in 1984 who are the focus of this study accounted for 56 percent of all persons. We do not examine changes in income of single individuals, childless couples, and other living units containing only adults.

Taken as a whole, the 1967-1984 period was one of economic stagnation relative to the previous two decades, but experiences differed widely in the 1967-1973 and 1973-1984 subperiods. Table 1 and Chart 1 show mean family income in constant 1984 dollars for four selected years for all families with children, and for subgroups defined by the number of parents in the household and the sex and race of the family head.[2] We chose 1967 and 1984 because they are the earliest and latest years for which comparable computer tapes are available from the Census Bureau's annual March Current Population Survey (CPS). The intermediate years, 1973 and 1979, were two of the "best" years for family economic well-being during this period. Both were marked by lower unemployment rates than surrounding years and both preceded severe recessions.

Table 1

Mean Real Income of Families with Children and Unemployment Rates, Selected Years, 1967-1984
(1984 dollars)

	1967	1973	1979	1984	Percentage Change[a] 1967-73	1973-84	1967-84
All Families with Children	$28,369	$32,206	$31,138	$29,527	+13.5%	-8.3%	+4.1%
White	29,697	33,859	32,826	31,298	+14.0	-7.6	+5.4
Black	17,790	20,708	20,150	18,504	+16.4	-10.6	+4.0
Hispanic	n.a.	23,280	23,778	21,663	n.a.	-6.9	n.a.
All Two-Parent Families with Children	30,139	35,493	35,383	34,379	+17.8	-3.1	+14.1
White	30,963	36,276	35,976	34,954	+17.2	-3.6	+12.9
Black	21,121	27,040	28,645	28,096	+28.0	+3.9	+33.0
Hispanic	n.a.	26,247	27,539	25,777	n.a.	-2.5	n.a.
All Female-Headed Families with Children	14,184	14,371	14,530	13,257	+1.3	-7.8	-6.5
White	15,836	15,853	16,016	14,611	+0.1	-7.8	-7.7
Black	10,819	11,619	11,710	10,522	+7.4	-9.4	-2.9
Hispanic	n.a.	12,175	11,223	10,560	n.a.	-13.3	n.a.
Unemployment Rate	3.8%	4.9%	5.8%	7.7%	+28.9	+57.1	+102.6

Source: Unless noted otherwise, all data in all the tables in this paper are from computations by the authors from the computer tapes from the March 1968, 1974, 1980 and 1985 Current Population Surveys.

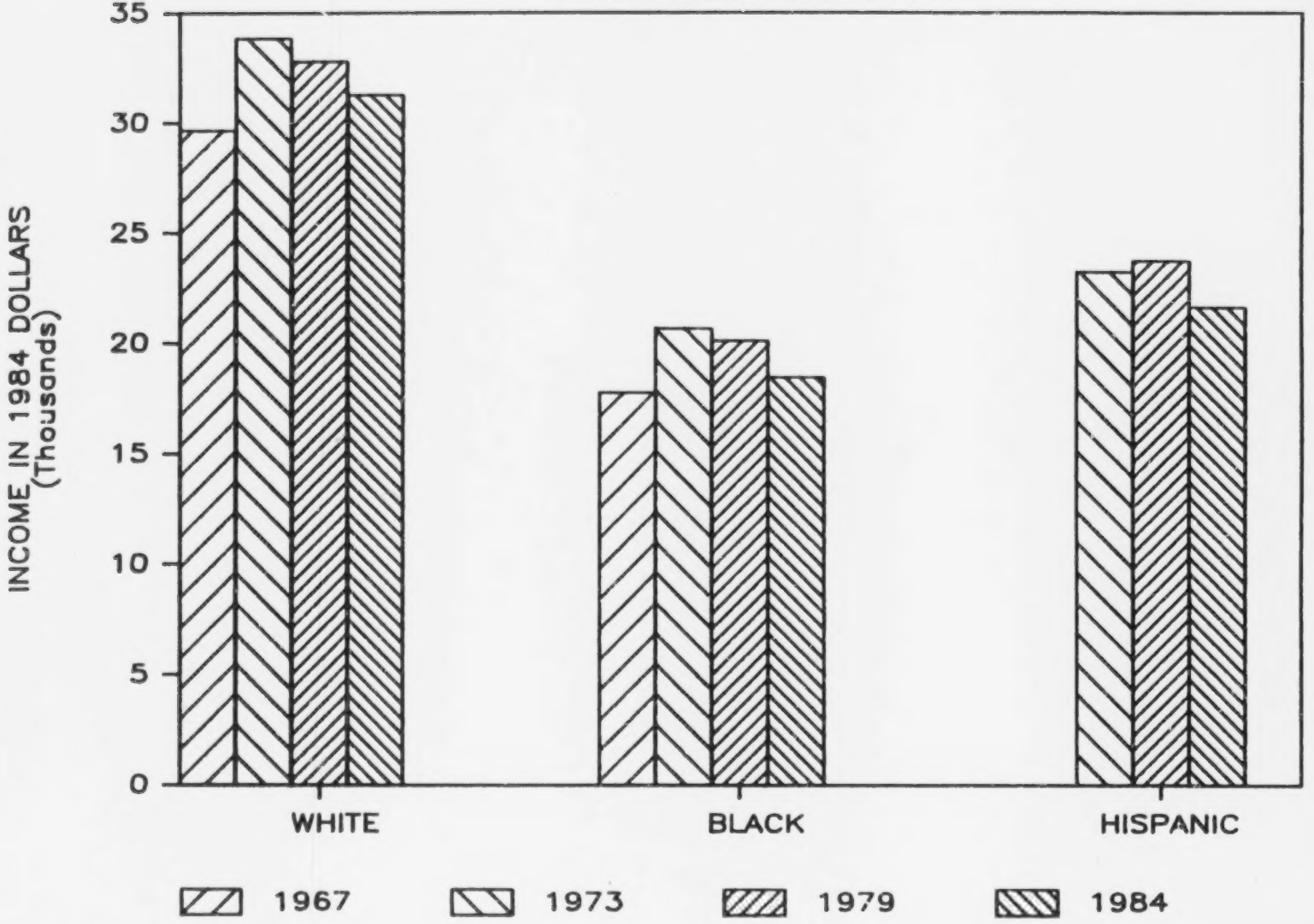
n.a. = Not available; the Census Bureau did not begin collecting annual data on persons of Hispanic origin in the Current Population Survey until 1972.

[a]Defined as 100 * (1984 mean - earlier-year mean)/earlier-year mean.

Chart 1

MEAN INCOME

FAMILIES WITH CHILDREN



The 1967-1984 period can be characterized by three trends. Average incomes grew between 1967 and 1973, were fairly constant between 1973 and 1979, and then declined sharply in the early 1980s. Between 1967 and 1973 the mean income for all families with children increased by 13.5 percent. Increases for two-parent families were larger, but there was almost no income growth among female-headed families. The 1973-1984 period was one of declining real income for all types of families (the only exception being black two-parent families).

On average, families in 1984 were only slightly better off than they were in 1967. The 1984 mean income for all families with children, $29,527, was 4.1 percent above the 1967 level, but 8.3 percent below the 1973 peak. Similar trends are evident for white, black and Hispanic families. But female-headed families had lower real incomes in 1984 than in 1967.

If the Census data accounted for direct taxes paid, most of the modest real income gains shown in Table 1 for the 1967-1984 period would become losses. These taxes have grown for almost all types of families over this period, and their average growth exceeded the 4.1 percent income growth for all families. In addition, the percentage increases in taxes have been larger for those at the bottom of the distribution than for those at the top.[3]

- The 1967-1984 period was characterized by stagnant real incomes.
- Considering the rise in personal taxes over the period, the typical family with children had a lower real income in 1984 than in 1967.

Demographic Shifts and Differences in Real Family Income across Demographic Groups

While there are large differences in the mean incomes of white and minority families, there are much larger differences between male- and female-headed families of the same race. In 1984 black two-parent families had about 80 percent of the income of white two-parent families. But the mean income for white female-headed families was only about 40 percent of that of white two-parent families and a little more than half of that of black two-parent families. Furthermore, the gap between two-parent and female-headed families has widened over time.

At the same time that the economic position of female-headed families was declining relative to that of two-parent families, their relative numbers were increasing among whites, blacks, and Hispanics. Table 2 and Chart 2 show changes in the number and composition of families with children. Because over 80 percent of all families with children are headed by whites, trends for all families are dominated by the experiences of whites.

The proportion of families headed by women doubled, from 10.4 percent in 1967 to 21.3 percent in 1984. In 1984, two parents were present in only 44.1 percent of all black families with children. Of the 7.1 million female family heads in 1984 (21.3 percent of the 33.3 million families), 22.1 percent had never been married, 64.3 percent were divorced or separated, and 11.3 percent were widows. Thus, the vast majority of children currently living in families headed by their mothers previously lived in two-parent families which had, on average, much higher average incomes.

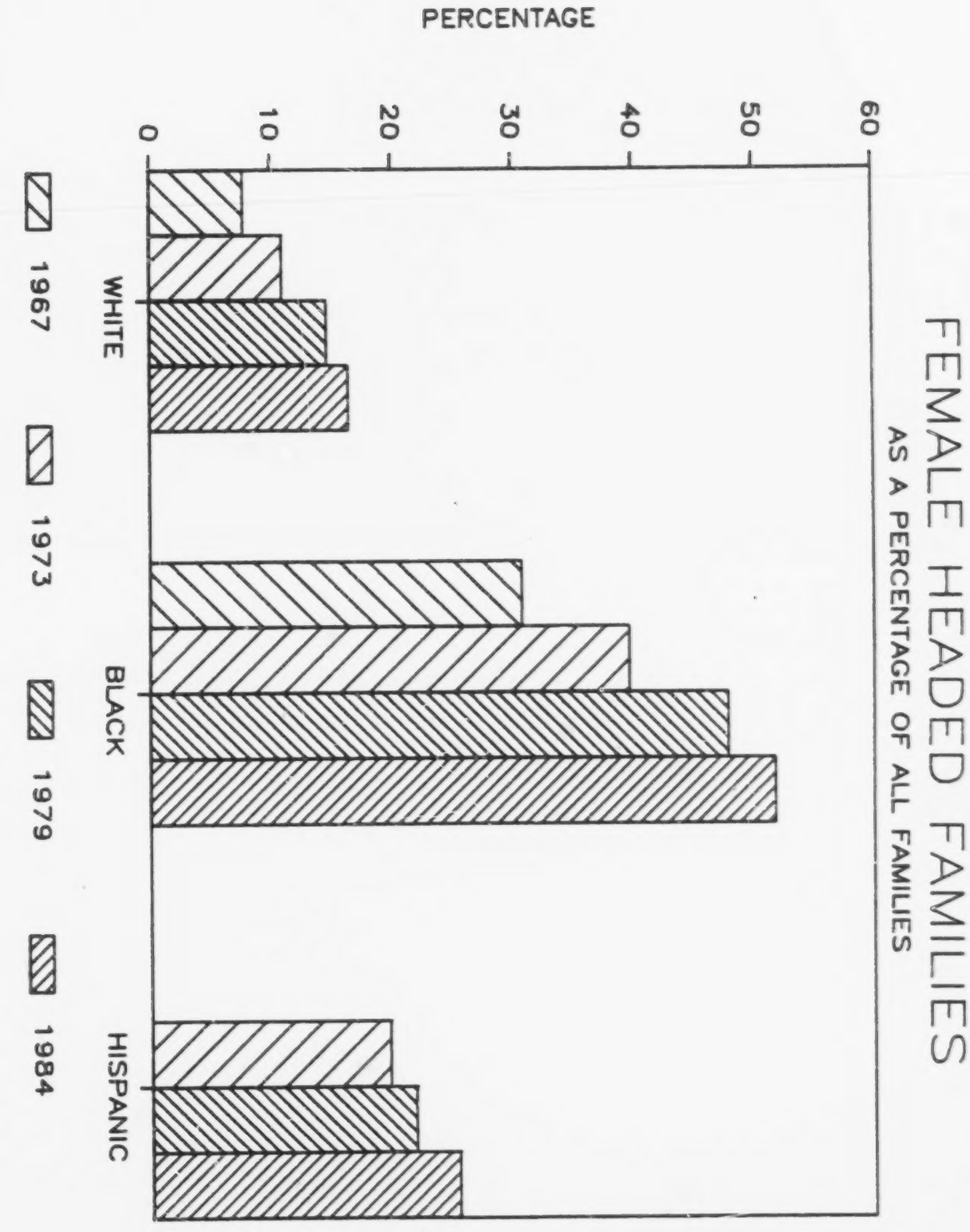
Table 2

The Composition of Families with Children, by Number of Parents and Sex of Head, and the Number of Families, 1967-1984

	1967	1973	1979	1984
All Families with Children				
Two parents	88.1%	83.6%	78.4%	75.3%
Single parent, male	1.5	1.8	2.5	3.4
Single parent, female	10.4	14.6	19.1	21.3
	100.0	100.0	100.0	100.0
Number (millions)	29.0	31.1	32.2	33.3
White Families with Children				
Two parents	90.9	87.4	83.0	80.2
Single parent, male	1.3	1.6	2.3	3.3
Single parent, female	7.8	11.0	14.7	16.5
	100.0	100.0	100.0	100.0
Number (millions)	25.5	26.8	27.3	27.7
Black Families with Children				
Two parents	66.1	57.3	48.3	44.1
Single parent, male	3.1	3.0	3.8	4.1
Single parent, female	30.8	39.7	47.9	51.8
	100.0	100.0	100.0	100.0
Number (millions)	3.2	3.8	4.3	4.6
Hispanic Families with Children				
Two parents	n.a.	78.1	75.3	70.5
Single parent, male	n.a.	2.1	2.8	4.0
Single parent, female	n.a.	19.8	21.9	25.5
	n.a.	100.0	100.0	100.0
Number (millions)	n.a.	1.8	2.3	2.8

Note: Because white, black, and Hispanics are not mutually exclusive categories, the number of all families with children does not equal the sum of the three groups shown. See footnote 2 in text for details.

Chart 2


FEMALE HEADED FAMILIES
AS A PERCENTAGE OF ALL FAMILIES
PERCENTAGE
0
10
20
30
40
50
60
WHITE
BLACK
HISPANIC
1967
1973
1979
1984

The effect of these demographic changes is particularly important for black-white income comparisons. The income gap between black and white two-parent families narrowed between 1967 and 1984--the black-white income ratio for these families increased from .68 to .80. The income gap between black and white female-headed families also narrowed during this period--their black-white income ratio rose from .68 to .72. Yet the black-white income ratio among all families with children was unchanged, at .60, because of the larger shift for blacks than whites toward female-headed families. White two-parent families declined from 90.9 to 80.2 percent of all white families with children, while black two-parent families declined from 66.1 to 44.1 percent of all black families with children.

- Between 1967 and 1984, the shift toward female-headed families lowered mean income for all families with children, particularly for black families.

Long-Run Trends in Average Family Income

While the changes from 1967 to 1984 in family incomes are disappointing in their own right, they are in sharp contrast to the rapid economic growth of the preceding two decades. Table 3 compares the average annual growth in real family income for the 1949-1969, 1967-1973, and 1973-1984 periods (the 1949 and 1969 data come from the decennial Censuses of 1950 and 1970). The two postwar decades saw rapid growth in family income among both two-parent and female-headed families with children. Mean family incomes grew by about 6 percent per year. Between 1967 and 1973, growth was about 3 percent per year for two-parent families and less than 1 percent for female-headed families. Growth per year was negative from 1973 to 1984.

Table 3

Average Annual Rate of Growth of Real Family Income, 1949-1969, Compared to 1967-1973 and to 1973-1984

	Annual Rate 1949-1969[a]	Annual Rate 1967-1973[b]	Annual Rate 1973-1984[c]
All Families with Children	5.75%	2.25%	-0.75%
White	5.00	2.34	-0.69
Black	8.34	2.73	-0.96
Hispanic	5.88	n.a.	-0.63
All Two-Parent Families with Children	6.17	2.96	-0.28
White	6.18	2.86	-0.33
Black	10.41	4.67	+0.35
Hispanic	6.39	n.a.	-0.23
All Female-Headed Families with Children	5.67	0.21	-0.71
White	5.68	0.02	-0.71
Black	9.92	1.23	-0.71
Hispanic	5.02	n.a.	-1.21

Source for 1949 and 1969 data: Computations by the authors from the computer tapes from the 1950 and 1970 decennial Censuses.

Note: While the Current Population Survey did not collect information on Hispanic origin in 1967, the decennial Censuses did collect those data.

[a]Defined as 100 x ((1969 real income - 1949 real income)/1949 real income) ÷ 20.

[b]Defined as 100 x ((1973 real income - 1967 real income)/1967 real income) ÷ 6.

[c]Defined as 100 x ((1984 real income - 1973 real income)/1973 real income) ÷ 11.

The data presented thus far provide a snapshot of mean income for families of all ages in any year. Since a family's income generally increases as it passes through its prime-earnings years, we present data on the incomes of cohorts of families at two different points in their life cycle. Row 1 of Table 4 shows the mean family income in 1984 dollars for families with heads between the ages of 25 and 45 in 1949, who were between the ages of 45 and 65 in 1969.[4] Members of this cohort experienced rapid income growth as they matured--7.3 percent per year. Those who were 25 to 45 in 1967, however, experienced only a 2.0 percent per year income increase as they passed through their prime earnings years between 1967 and 1984.

If one reads down the columns of Table 4, the income stagnation of the recent years is again apparent. Column 1 shows the incomes of families whose heads were 25 to 45 at different points in time. Those who were 25 to 45 in 1967 were much better off than those who had been in this age group in 1949--the mean income of this cohort had increased by over 80 percent, from $14,733 to $27,047. Those who were 25 to 45 in 1984, however, were only slightly better off than their comparison group--their mean, $28,073, was only 3.8 percent above the mean of the 1967 cohort.

- Families with children have fared poorly in the last 10 years, particularly when that experience is contrasted with the rapid growth of the 1949-1969 period and the slower growth of the 1967-1973 period.

- This income stagnation is apparent for comparisons across different cohorts as well as for cohort members as they proceed through their life cycle.

Table 4

Changes in Real Income for Cohorts of All Families with Children
(1984 dollars)

Cohort		Income When 25-45	Income in Later Year	Average Annual Rate of Growth
Ages 25-45 in 1949	Ages 45-65 in 1969	$14,733	$36,229	+7.3%[a]
Ages 25-45 in 1967	Ages 42-62 in 1984	27,047	36,424	+2.0[b]
Ages 25-45 in 1984	—	28,073	—	—

[a]Defined as 100 x ((1969 real income - 1949 real income)/1949 real income) ÷ 20.

[b]Defined as 100 x ((1984 real income - 1967 real income)/1967 real income) ÷ 17.

Changes in Income Inequality

Changes in the mean indicate how the "typical" family fared, but they obscure the differing patterns of income changes that have occurred for families at different positions in the income distribution. To see how families of "low", "middle" and "high" income have fared, we classify families with children into one of five quintiles, and compute the percentage of income received by each of these fifths of families. Changes in income shares provide a useful indicator of changes in income inequality.

Two points stand out for each of the four distributions shown in Table 5 and Chart 3. First, the extent of inequality is large in any year--in 1984, the poorest 20 percent of all families with children received 4.16 percent of aggregate income, while the richest 20 percent received more than ten times that amount, 42.13 percent.

Second, the degree of inequality has increased substantially since 1967. Consider the ratio of the 1984 income share to the initial-year share shown for each of the four family types in Table 5. A ratio less than 1.0 indicates that the quintile now has a smaller proportion of income; a ratio greater than 1.0, that the quintile now has a greater proportion. For all families with children, and for whites, blacks and Hispanics, the pattern is identical—the highest-income families have gained and the lowest-income families have lost: in all cases the bottom 60 percent lost, while the top 40 percent gained. The largest declines have been in the lowest quintile and the largest increases in the highest, but there were also large declines in the second, and increases in the fourth, quintile.

Table 5

Share of Aggregate Income Received by Each Quintile of Families with Children, 1967-1984

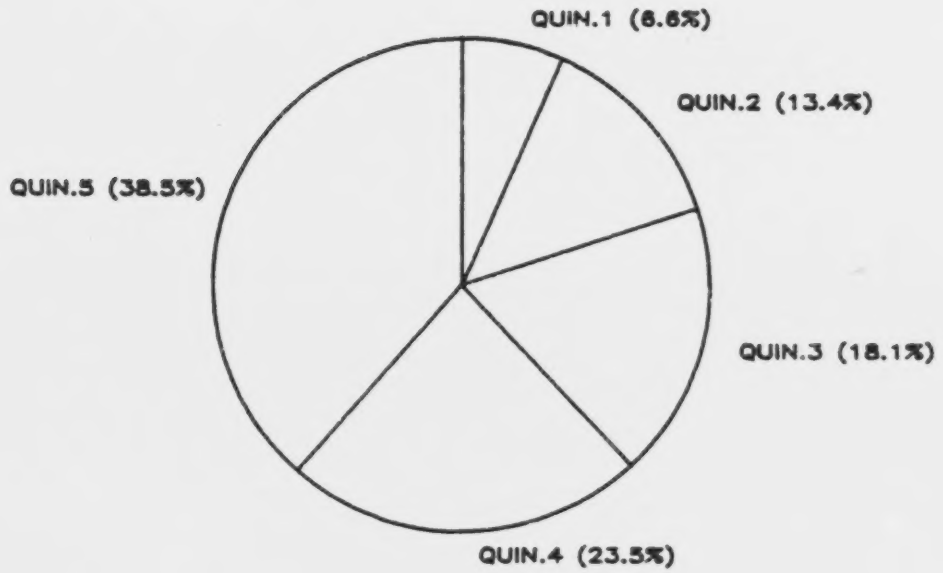
	Quintile Share of Income					
	1	2	3	4	5	Total
All Families with Children						
1967	6.59%	13.36%	18.05%	23.46%	38.54%	100.0%
1973	5.78	12.84	18.00	24.09	38.28	100.0
1979	5.18	12.33	18.55	24.56	39.38	100.0
1984	4.16	11.17	17.50	25.04	42.13	100.0
Ratio: 1984/1967 Share	0.63	0.84	0.97	1.07	1.09	1.00
White Families with Children						
1967	7.32	13.71	18.04	23.09	37.84	100.0
1973	6.46	13.33	18.02	23.66	38.52	100.0
1979	5.88	12.93	18.46	24.50	38.24	100.0
1984	4.75	11.98	17.97	24.29	41.01	100.0
Ratio: 1984/1967 Share	0.65	0.87	0.99	1.05	1.08	1.00
Black Families with Children						
1967	5.27	10.88	17.02	24.45	42.38	100.0
1973	4.84	10.39	16.56	25.06	43.16	100.0
1979	4.14	9.43	15.83	26.00	44.60	100.0
1984	3.50	8.25	15.12	25.18	47.96	100.0
Ratio: 1984/1967 Share	0.66	0.76	0.89	1.03	1.13	1.00
Hispanic Families with Children						
1967	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1973	6.02	11.83	17.25	24.43	40.47	100.0
1979	4.83	10.83	17.07	24.76	45.51	100.0
1984	4.08	9.93	16.98	25.45	43.56	100.0
Ratio: 1984/1973 Share	0.68	0.84	0.98	1.04	1.08	1.00

Note: Quintiles are defined separately for each of the four types of families shown for each year.

Chart 3

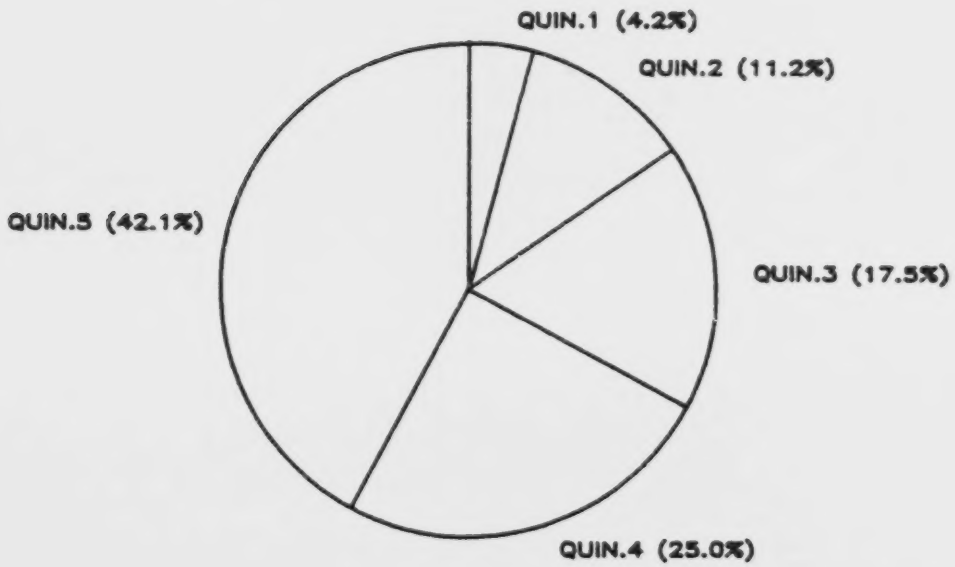
SHARES OF AGGREGATE INCOME: 1967

ALL FAMILIES WITH CHILDREN



SHARES OF AGGREGATE INCOME: 1984

ALL FAMILIES WITH CHILDREN



Just as with mean family income, the trend in quintile shares since 1967 differs dramatically from the period covering 1949 to 1969. Chart 4 shows the change in the proportion of aggregate income received by each quintile during the 1949-1969 and 1967-1984 periods. During the earlier period, the income distribution shifted somewhat toward less inequality as the lowest quintile increased its share and the shares of the other four quintiles declined a small amount. The share of the lowest 20 percent of all families with children increased from 4.66 to 5.68 percent between 1949 and 1969 (shown as a positive 1.02 percentage-point difference in Chart 4), while the share of the highest 20 percent declined slightly, from 40.46 to 40.21 percent, and that of the next-to-highest quintile declined from 23.80 to 23.38 percent (these latter two are shown as negative percentage-point differences in Chart 4).

Table 6 combines the income share data from Table 5 with the mean income data from Table 1 and shows the mean income in constant 1984 dollars for each quintile, for each of four family types. The mean income in a quintile changes when its income share changes and when the amount to be shared (aggregate income) changes. For example, between 1967 and 1984, mean income for all families increased by 4.1 percent, but the share of the lowest quintile declined sufficiently to result in a 34.3 percent decline, from $9347 to $6142. Over the same period, the mean income of the highest quintile increased from $54,665 to $62,198 because its share of the growing mean increased. A typical family in the second quintile lost 13 percent ($18,950 to $16,491) while one in the fourth quintile gained 11.1 percent ($33,276 to $36,967). Thus, there were shifts in income not only from the poorest to the richest families, but also from lower-middle-income to upper-middle-income families.

Chart 4

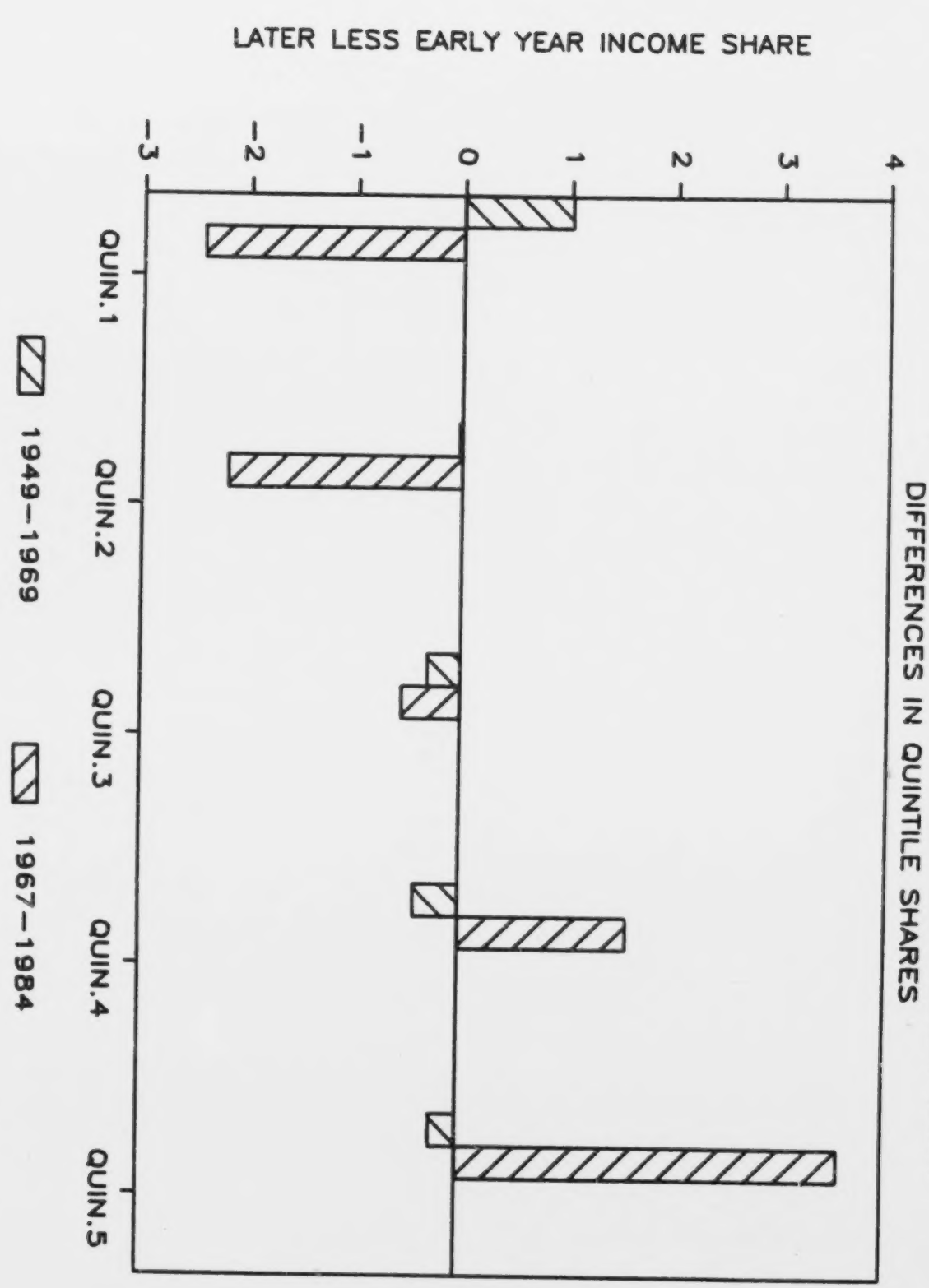

ALL FAMILIES WITH CHILDREN
DIFFERENCES IN QUINTILE SHARES
LATER LESS EARLY YEAR INCOME SHARE
-3
-2
-1
0
1
2
3
4
QUIN.1
QUIN.2
QUIN.3
QUIN.4
QUIN.5
1949–1969
1967–1984

Table 6

Mean Income of Families with Children by Income Quintile
in Constant Dollars, 1967-1984
(1984 dollars)

	Mean Income of Quintile:					Mean of All Families
	1	2	3	4	5	
All Families with Children						
1967	$9347	$18,950	$25,602	$33,276	$54,665	$28,369
1973	9308	20,678	28,988	38,796	63,258	32,206
1979	8057	19,179	28,855	38,203	61,256	31,138
1984	6142	16,491	25,836	36,967	62,198	29,527
Percentage Change,						
1967-1984	-34.3	-13.0	+0.9	+11.1	+13.8	+4.1
1973-1984	-34.0	-20.2	-10.9	-4.7	-1.7	-8.3
White Families with Children						
1967	10,870	20,359	26,789	34,288	56,191	29,697
1973	10,936	22,567	30,507	40,055	65,211	33,859
1979	9651	21,222	30,299	40,213	62,764	32,826
1984	7433	18,748	28,112	38,012	64,178	31,298
Percentage Change,						
1967-1984	-31.6	-7.9	+4.9	+10.9	+14.2	+5.4
1973-1984	-32.0	-16.9	-7.9	-5.1	-1.6	-7.6
Black Families with Children						
1967	4686	9674	15,134	21,740	37,683	17,790
1973	5011	10,758	17,146	25,947	44,687	20,708
1979	4171	9501	15,949	26,195	44,935	20,150
1984	3238	7634	13,989	23,296	44,371	18,504
Percentage Change,						
1967-1984	-30.9	-21.1	-7.6	+7.2	+17.7	+4.0
1973-1984	-35.3	-29.0	-18.4	-10.2	-0.7	-10.6

table continues

Table 6, continued

	Mean Income of Quintile:					Mean of All Families
	1	2	3	4	5	
Hispanic Families with Children						
1967	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1973	7007	13,770	20,079	28,437	47,107	23,280
1979	5742	12,876	20,295	29,437	50,540	23,778
1984	4419	10,756	18,392	27,566	47,181	21,663
Percentage Change, 1973-1984	-36.9	-21.9	-8.4	-3.1	+0.2	-6.9

Note: Quintiles are defined separately for each of the four types of families shown for each year. Thus, a group with a higher mean income is likely to have a higher mean in every quintile.

The mean income of all quintiles was lower in 1984 than in 1973, and inequality continued to increase. The percentage decline for all families ranged from 34.0 and 20.2 percent in the lowest two quintiles to 4.7 and 1.7 in the top two quintiles. The 1973-1984 experience of the three middle-income quintiles differed dramatically from their experience between 1967 and 1973, when their mean incomes grew by 9, 13, and 17 percent, respectively.

Changes in mean income per quintile for the 1979-1984 subperiod were similar to those for the 1973-1984 period, with one exception. Between 1979 and 1984, the mean income for the top quintile of all families and of white families increased. The means for the other four quintiles and for all five black and Hispanic quintiles were lower in 1984 than they were in 1979.

- Although inequality decreased slightly between 1949 and 1969, it increased substantially between 1967 and 1984. Incomes of the bottom 40 percent of families declined in real terms, while those of the top 40 percent rose.
- The mean income of all quintiles was lower in 1984 than in 1973. In 1984, the mean of the top quintile was higher than its 1979 level, while the means of the other four quintiles were lower.

Changes in Income Poverty

With mean incomes declining and inequality increasing, it comes as no surprise that poverty rates increased between 1973 and 1984. Table 7 and Chart 5 show the incidence of poverty using the federal government's official definition of poverty--$10,609 cash income for a family of four in 1984.[5] Poverty for all persons living in families with children declined between 1967 and 1973, increased somewhat between 1973 and 1979, and then increased rapidly between 1979 and 1984.[6]

Table 7

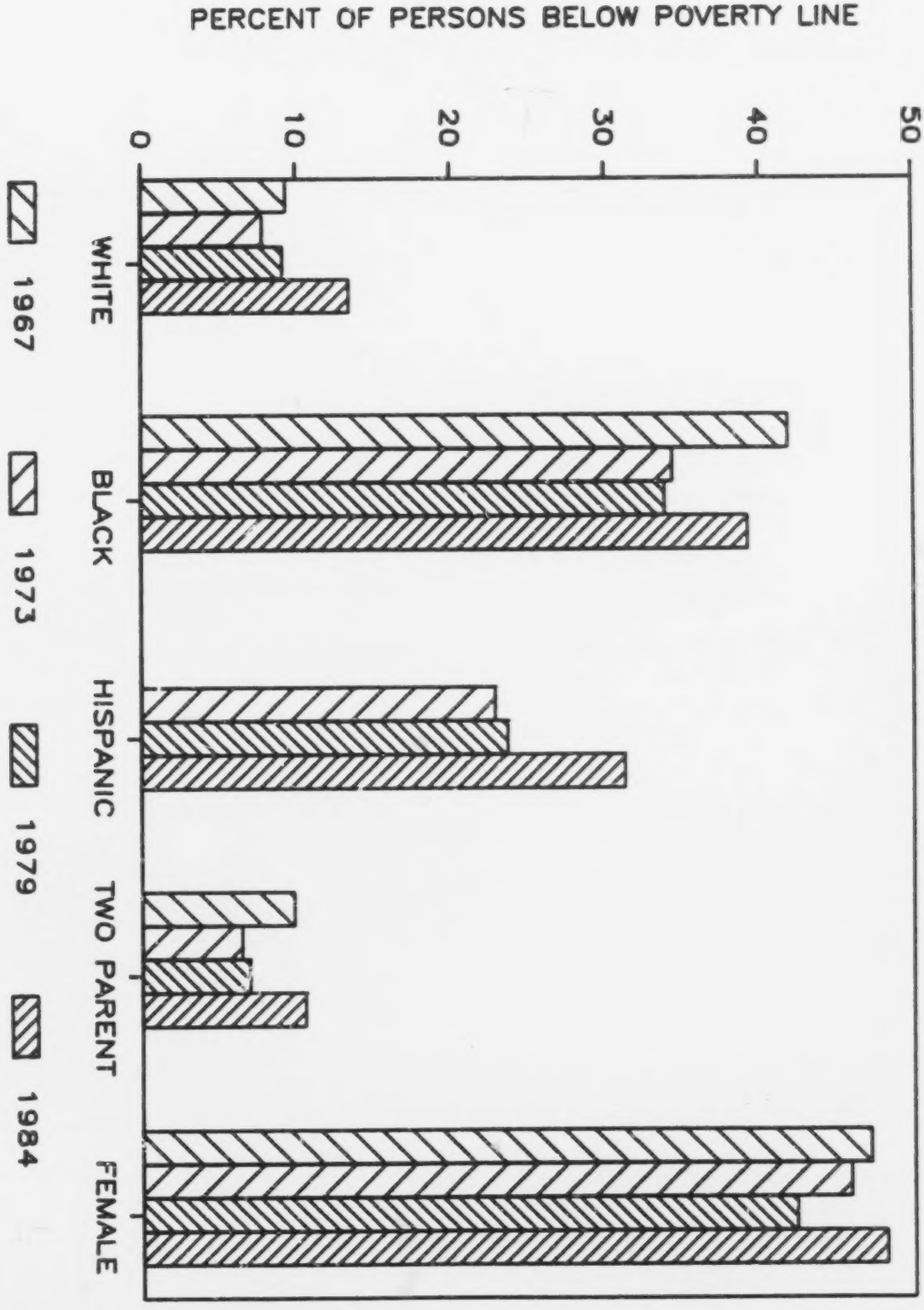
The Incidence of Poverty Among Persons
Living in Families with Children, 1967-1984

	1967	1973	1979	1984
All Families with Children	13.5%	11.4%	12.7%	17.4%
White	9.4	7.9	9.2	13.5
Black	41.9	34.4	33.9	39.3
Hispanic	n.a.	22.9	23.7	31.3
All Two-Parent Families with Children	9.9	6.5	7.0	10.6
White	7.7	5.2	6.1	9.4
Black	31.3	18.7	15.5	19.3
Hispanic	n.a.	14.8	16.8	22.6
All Female-Headed Families with Children	47.2	45.9	42.4	48.2
White	34.2	36.2	32.9	40.7
Black	67.6	61.1	57.1	60.5
Hispanic	n.a.	61.3	56.5	63.0

Chart 5

POVERTY RATES

FAMILIES WITH CHILDREN



Black two-parent families were the only group to deviate much from this trend--their 1984 poverty rate, 19.3 percent, was substantially below their 1967 rate, 31.3 percent. This decline does not support the view that blacks were more harmed than helped in the aftermath of the War on Poverty and Great Society initiatives. While poverty rates decreased for black two-parent and female-headed families between 1967 and 1984, they increased for white two-parent and female-headed families. Nonetheless, in 1984 blacks were still much more likely than their white counterparts to be poor. And, as with family incomes, the greatest differences in poverty rates were between two-parent and female-headed families.

Again, the contrast of the economic circumstances of families during the 1949-1969 period, as compared to the later years, is striking. Poverty declined rapidly (data not shown) for all types of families--white, black, Hispanic, two-parent, and female-headed. In 1949 poverty was about 40 percent for persons living in all two-parent families and almost 80 percent for those in female-headed families.[7] By 1969, these rates had fallen to about 10 and about 50 percent, respectively.

- Poverty declined between 1967 and 1973. However, poverty increased rapidly after 1973, and the 1984 rate for all families with children exceeded the 1967 rate. Poverty rates in 1984 were above the 1967 rate for whites but below the 1967 rate for blacks.

The Effects of Demographic and Economic Factors on Poverty

Why was poverty for families with children higher in 1984 than in 1967, in spite of the rapid growth in government spending for the poor that took place during these years? We offer three major reasons. The first relates to the increase in the proportion of families headed by

women. Since these families have above-average poverty rates, growth in their numbers would have increased poverty for all families even if the economic situation within demographic groups had remained constant.

The second reason poverty rose relates to decreases in the earnings of family heads. Table 8 presents one measure of the dimensions of the problem--the growing percentage of families whose heads have "low weekly earnings." We define "low earners" as family heads with weekly earnings below $204 per week in 1984 dollars. Such persons could not earn the yearly poverty-line income for a family of four even if they worked 52 weeks a year at their current weekly wage.[8] In 1984, about one-fifth of husbands heading two-parent families and two-thirds of women heading single-parent families were low earners.

The incidence of low earnings for heads of all families increased from 20.8 to 29.9 percent between 1967 and 1984; the incidence increased for the heads of two-parent families and decreased for female-headed families.

The incidence of low earnings increased more rapidly than did the incidence of poverty, suggesting that increases in other income sources helped modify the trend toward greater poverty. This is particularly evident for black two-parent families, for whom poverty declined substantially even though the incidence of low earnings was about the same in 1984 as it was in 1967. (We show below that the increased earnings of wives and increased transfers each contributed to the decline in poverty for black two-parent families and kept poverty for white two-parent families from increasing even more than it actually did.)

Table 8

Incidence of Low Weekly Earnings of Heads of Families,[a]
1967-1984

Heads of:	1967	1973	1979	1984
All Families with Children	20.8%	21.5%	23.8%	29.9%
White	17.1	17.7	19.6	25.5
Black	48.3	45.6	46.9	51.5
Hispanic	n.a.	32.8	34.6	44.0
All Two-Parent Families with Children[b]	14.3	12.7	14.1	19.5
White	12.4	11.4	12.6	17.7
Black	32.1	24.5	26.6	32.8
Hispanic	n.a.	19.2	22.2	30.1
All Female-Headed Families with Children	71.1	68.9	61.9	65.5
White	64.8	63.8	56.7	61.4
Black	83.9	78.4	71.7	72.7
Hispanic	n.a.	81.6	75.4	79.8

[a]"Low earners" are family heads with weekly earnings below $204 per week in constant 1984 dollars. Such persons could not earn the poverty-line income for a family of four even if they worked 52 weeks a year at their current weekly wage.

[b]Husbands are classified as the heads of two-parent families.

Because of the decline in the real minimum wage (Table 9), the number of hours that earners in a family of four working at the minimum wage would have had to work to earn the poverty-line budget increased from 2421 hours in 1967 to 3167 hours in 1984. The latter number represents 60 hours of work each week of the year.

The third reason why poverty increased despite the increase in government spending relates to the distribution of transfer payments. A large and growing proportion of transfers were received by the elderly. The first two rows of Table 10 show that pretransfer poor families with children receive a disproportionately small and declining share of all transfers--they were about 26 percent of all pretransfer poor households in both 1967 and 1984, but their share of cash transfers declined from 19.8 to 16.8 percent.[9]

The bottom rows show that pretransfer poor families with children received much smaller amounts of transfers than households headed by a person over 65 years of age. The average transfer to the elderly poor increased over the entire period. Transfers to families with children increased substantially between 1967 and 1983, but then declined. Thus, in 1984, when the poverty line for a family of four was $10,609, the typical pretransfer poor family with children received only about $3000. This contrasts to the situation of the elderly, for whom the poverty line for a couple was $6282, and the average transfer was $7322. In addition, almost all of the elderly poor received cash transfers, while only about two-thirds of poor families with children received any cash benefits.[10]

- Poverty for families with children has increased over the 1967-1984 period because of the growth in the number of female-headed families, the increased incidence of low earnings among male heads of families, and the decline after 1973 in the real value of cash transfers per pretransfer poor family.

Table 9

The Minimum Wage and the Poverty Line, 1967-1984

	1967	1973	1979	1984
Minimum Wage				
Current dollars	$1.40	$1.60	$2.90	$3.35
Constant 1984 dollars	4.35	3.74	4.15	3.35
Number of Hours of Work at Minimum Wage to Earn a Poverty-Line Income for a Four-Person Family	2421	2840	2539	3167

Table 10

Poverty and Transfer Receipt, 1967-1984

	1967	1973	1979	1984
Pretransfer Poor Families with Children as a Percentage of All Pretransfer Poor Households	26.2%	25.3%	24.5%	26.8%
Percentage of All Cash Transfers to Pretransfer Poor Households Received by Pretransfer Poor Families with Children	19.8%	22.5%	17.9%	16.8%
Average Cash Transfer Received by the Pretransfer Poor (1984 dollars):				
Two-Parent Families with Children	$1832	$4024	$3776	$2946
Female-Headed Families with Children	3908	5217	4056	3276
Households Headed by Elderly Persons	4756	6484	6926	7322

Note: Pretransfer poor households are those whose cash incomes, excluding government transfers, fall below the poverty line.

The Effects of Changes in Income Sources and the Mean Incomes of Families with Children

We have shown that the 1967-1984 period was characterized by stagnant incomes, rising inequality, and increased poverty for families with children. We now turn to an examination of the changing sources of family income. We show that the major factor accounting for the increases in the incomes of two-parent families was the increased earnings of wives. Declines in income for female-headed families occurred despite an increase in the head's earnings.

Table 11 and Chart 6 show a decomposition of family income into six mutually exclusive categories: the earnings of the household head; the earnings of the spouse (which is zero in female-headed families); the earnings of other household members; property income (interest, dividends and rents); public cash transfers (social security, unemployment compensation, welfare, etc.); and other income (alimony, interfamily transfers, private pensions, etc.). Also shown are the mean total family incomes and the percentage of two-parent families in which the wife worked. The dollar amount received from any income source can be computed as the product of the income share and the mean family income.

The top panel of the table, for two-parent families with children, shows that husband's earnings declined in relative importance for whites, blacks and Hispanics, though it remained by far the most important income source. The share of family income earned by wives increased for all groups shown.

Table 11

Sources of Income for Two-Parent and Female-Headed Families with Children, 1967 and 1984

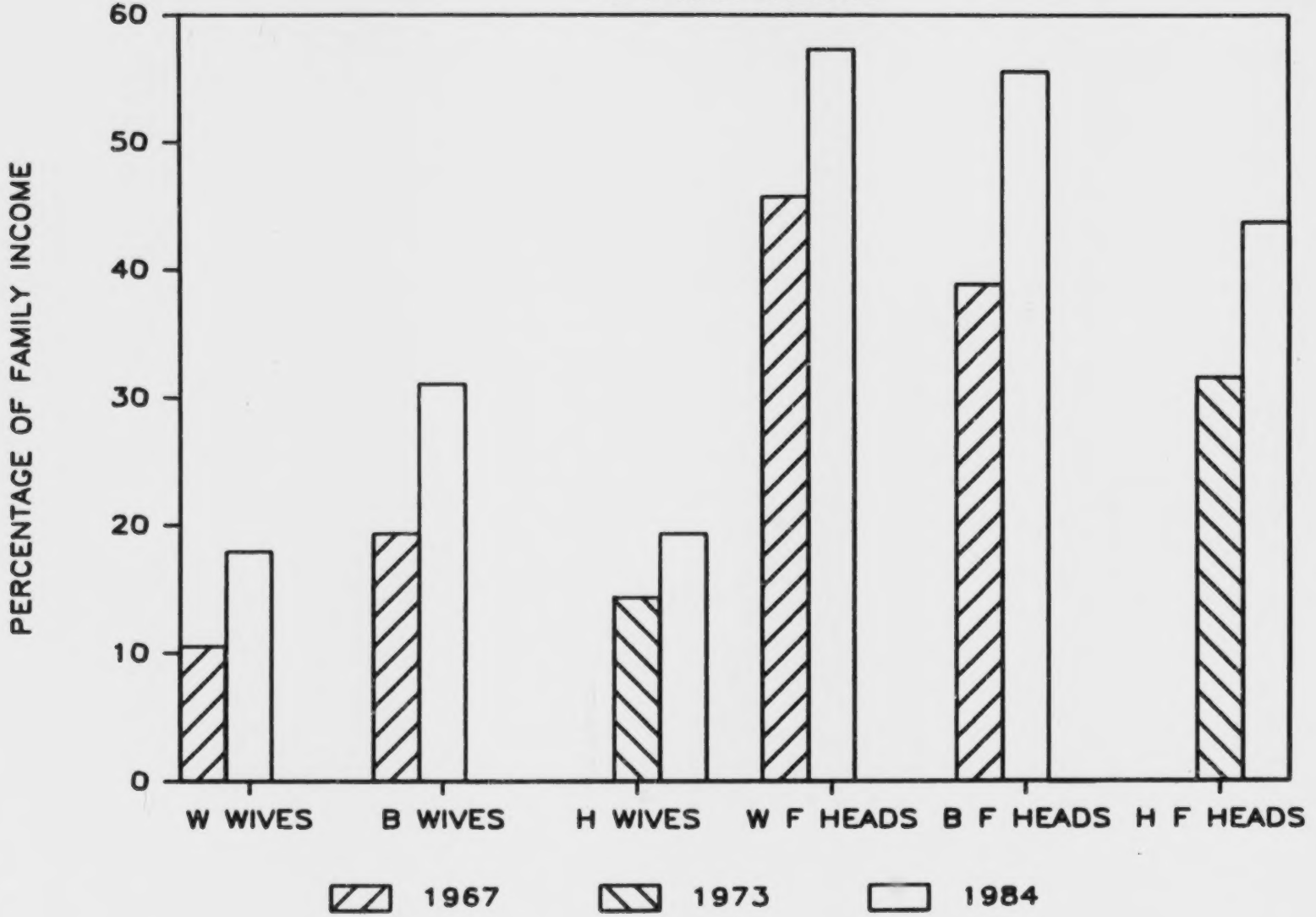
Percentage of Family Income From:	White		Black		Hispanic	
	1967	1984	1967	1984	1973	1984
			Two-Parent Families with Children			
Earnings of Husband	80.2%	70.4%	66.6%	56.5%	71.7%	66.3%
Earnings of Wife	10.6	18.0	19.4	31.1	14.4	19.4
Earnings of Others	5.1	3.9	8.7	5.5	7.8	7.2
Property Income	1.8	3.9	0.7	1.0	0.8	2.0
Cash Transfers	2.0	2.7	3.9	5.0	4.8	4.5
Other Income	0.5	1.1	0.6	1.0	0.5	0.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Mean (1984 Dollars)	$30,963	$34,954	$21,121	$28,096	$26,247	$25,777
Percentage of Two-Parent Families with Working Wife	43.5	65.0	61.5	71.6	40.4	55.6
			Female-Headed Families with Children			
Earnings of Head	45.8	57.3	38.9	55.6	31.6	43.8
Earnings of Others	21.4	13.9	28.2	15.1	15.9	20.4
Property Income	3.8	4.2	0.3	0.8	1.0	1.8
Cash Transfers	18.6	15.1	30.0	24.9	42.2	29.1
Other Income	10.3	9.4	2.9	3.7	9.2	4.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Mean (1984 Dollars)	$15,836	$14,611	$10,819	$10,522	$12,175	$10,560

Note: Totals may not add exactly to 100.0 because of rounding.

Chart 6

CONTRIBUTION OF WOMEN'S EARNINGS

TO FAMILY INCOME



Consider, for example, white two-parent families, whose mean income increased from $30,963 to $34,954. Husbands contributed 80.2 percent, or $24,832, of the total in 1967, and 70.4 percent, or $24,607, in 1984. Thus, family income only went up because of increases in other income sources.

The share of family income attributable to the earnings of white wives increased from 10.6 to 18.0 percent of income and accounted for three-quarters of the total increase in family income. The share due to earnings of white wives increased because the percentage of two-parent families with working wives increased from 43.5 to 65.0 percent and because the mean earnings of wives who worked increased from $7545 to $9680.[11]

For black two-parent families, the husband's share declined from 66.6 to 56.5 percent, but their average earnings increased from $14,067 to $15,874. The share of black wives increased from 19.4 to 31.1 percent and accounted for two-thirds of the increased family income. More black wives worked in 1984 than in 1967, 71.6 versus 61.5 percent, and the mean earnings of working wives increased from $6663 to $12,204. While working black wives earned less than working white wives in 1967, by 1984 they earned more.

Data for Hispanics, not available for 1967, tell a story similar to that for whites for the 1973-1984 period. Husbands' earnings declined both in absolute amount and as a percentage of family income. And the income share due to wives increased because of increases in both the percentage of wives working and in the mean earnings of working wives.

This increase in family income due to increased market work by wives came at the cost of reduced time available for leisure and home production. Thus, the income changes shown in Table 11 overstate the actual gains in well-being.

Even though female family heads increased their earnings, their family incomes fell between 1967 and 1984. For example, over those years the earnings of white female family heads increased by 15 percent, but their family income declined by 7.7 percent; for black female family heads, earnings increased by almost 40 percent, but family income fell by 2.9 percent; between 1973 and 1984 the earnings of Hispanic female heads increased by 20 percent, but family income declined by 13.3 percent. In each case, the increased earnings were more than offset by declines in cash transfers and in the earnings of other household members.

- Among the sources of family income, the earnings of wives and female household heads grew fastest.
- A greater percentage of white, black and Hispanic wives worked and the mean earnings of those working also increased.
- The incomes of female-headed households decreased between 1967 and 1984 in spite of the increased earnings of female household heads.

The Effects of Changes in Wives' Earnings on Mean Incomes, Poverty Rates and Income Shares

Table 12 shows that the contributions of wives were important not only in increasing mean income of all two-parent families, but also in reducing poverty rates and increasing the income share of the lowest quintile. The first column shows the mean income, poverty rate, and income share of the bottom quintile for all two-parent families for all income sources. The second column shows what these measures would have

Table 12

The Contribution of Working Wives in All Two-Parent Families to Family Income, Poverty Reduction, and the Income Share of the Bottom Quintile, 1967-1984

Two-Parent Families:	Measure for All Sources of Family Income	Measure After Wives' Earnings Are Set to Zero	Percentage Change in Measure due to Wives' Earnings[a]
1967			
Mean income	$30,139	$26,790	+12.5%
Poverty rate	9.94%	13.17%	-24.5
Share of bottom quintile	7.92%	7.50%	+5.6
1973			
Mean income	35,493	31,189	+13.8
Poverty rate	6.48	9.28	-30.2
Share of bottom quintile	7.77	7.27	+6.9
1979			
Mean income	35,383	29,884	+18.4
Poverty rate	7.04	10.31	-31.7
Share of bottom quintile	7.32	6.75	+8.4
1984			
Mean income	34,379	27,860	+23.4
Poverty rate	10.55	16.24	-35.0
Share of bottom quintile	6.25	5.45	+14.7
Percentage Change, 1967-1984[b]			
Mean income	+14.1	+4.0	n.a.
Poverty rate	+6.1	+23.3	n.a.
Share of bottom quintile	-21.1	-27.3	n.a.

[a]Defined as (family value - family value less wives' earnings/family value less wives' earnings) multiplied by 100. The 12.5 percentage change in the first row is equal to 100 times [($30,139 - $26,790)/$26,790].

[b]Defined as 100 times (1984 value - 1967 value/1967 value).

been if wives had not worked at all--that is, we set wives' earnings equal to zero and recomputed the measure with family income reduced accordingly.[12] Column 3 shows the percentage difference in the two measures.

In 1984, the earnings of two-parent families were 23.4 percent higher than they would have been had wives not worked and had all other income sources remained at their 1984 levels. Poverty was 35.0 percent lower, and the income share of the bottom quintile 14.7 percent higher, because of wives' earnings. That wives increased the income share of the bottom quintile means that the ratio of the earnings of wives to other family income was higher for low-income households than for high-income households.

The income-raising, and poverty- and inequality-reducing, effects of the increased earnings of wives grew substantially after 1967. As shown in the bottom panel of Table 12, poverty in the absence of wives' earnings increased by 23.3 percent, while poverty including wives' earnings increased by 6.1 percent.

- If wives' earnings had not increased between 1967 and 1984, mean family income would have grown more slowly and poverty and income inequality would have increased more rapidly than they actually did.

Table 13 shows, for white, black and Hispanic two-parent families, the percentage changes in mean income, poverty and the income share of the bottom quintile that are associated with wives' earnings. In each year, the effects of wives' earnings on the mean, poverty and the income share are similar for the three groups. However, in 1984 black wives had a much larger effect on mean income and a smaller effect on the income share of the bottom quintile than did white wives. In 1967, the earnings

Table 13

The Contribution of Working Wives to Family Income, Poverty Reduction, and the Income Share of the Bottom Quintile, 1967-1984

Percentage Changes	Two-Parent Families		
	White	Black	Hispanic
1967			
Mean income	+11.8	+24.1	n.a.
Poverty rate	-25.0	-23.3	n.a.
Share of bottom quintile	+5.1	-1.7	n.a.
1973			
Mean income	+12.7	+28.3	+16.9
Poverty rate	-30.6	-28.3	-27.4
Share of bottom quintile	+6.3	-1.5	+2.3
1979			
Mean income	+17.2	+34.0	+21.1
Poverty rate	-30.9	-34.7	-24.4
Share of bottom quintile	+7.9	+3.7	+3.3
1984			
Mean income	+22.0	+45.1	+24.0
Poverty rate	-34.6	-39.5	-26.1
Share of bottom quintile	+14.3	+8.9	+7.7

Note: Percentage changes are defined as (family value - family value less wives' earnings/family value less wives' earnings) multiplied by 100.

of black wives reduced slightly the income share of the bottom quintile, indicating that wives in lower-income families were earning proportionally less than those in higher-income families.

Table 7 showed that poverty for black two-parent families actually declined from 31.3 to 19.3 percent, a difference in poverty rates of 38.3 percent. Table 13 shows that black wives reduced poverty in their group by 23.3 percent in 1967 and 39.5 percent in 1984. In the absence of wives' earnings, poverty would have fallen only from 40.8 to 31.9 percent, a difference in rates of 21.8 percent. Thus, a major portion of the observed decline in poverty for black two-parent families is associated with increased earnings of wives.

Changes in the Antipoverty Effects of Cash Transfers

A second important change in income sources has been cash transfers. Table 14 shows the percentage of pretransfer-poor households who received cash transfers and the antipoverty effect of such transfers, measured by comparing the percentage of persons in poverty after the receipt of transfers with the percentage in poverty before transfers. This measure gives an upper-bound estimate, since it does not include labor-supply responses to the transfers.[13]

Between 1967 and 1973 transfer recipiency among the poor and the antipoverty effect of transfers increased; between 1973 and 1979 they stayed fairly constant; then both declined through 1984. The largest increase in the antipoverty effect of transfers was for black two-parent families. Transfers took a greater percentage of all two-parent families out of poverty in 1984 than in 1967, but a smaller percentage of female-headed families.

Table 14

Dependence on Cash Transfers of Pretransfer Poor Households and Reduction in Poverty Due to Cash Transfers, 1967-1984

	Percentage of Pretransfer Poor Households Receiving Cash Transfers				Percentage Reduction in the Number of Persons in Poverty Due to Cash Transfers[a]			
	1967	1973	1979	1984	1967	1973	1979	1984
All Families with Children	51.4	71.0	71.8	68.5	-15.2	-24.7	-23.2	-15.8
White	49.3	66.8	67.1	64.2	-18.3	-28.5	-25.7	-17.6
Black	55.7	79.4	81.7	79.0	-9.8	-17.9	-19.1	-12.2
Hispanic	n.a.	70.1	69.1	66.7	n.a.	-19.9	-15.8	-10.4
All Two-Parent Families with Children	38.5	56.8	60.1	56.4	-13.6	-25.4	-26.3	-18.7
White	39.3	56.6	57.9	55.1	-15.6	-27.9	-26.9	-19.1
Black	36.8	57.3	70.1	64.5	-8.7	-17.4	-25.1	-18.2
Hispanic	n.a.	52.6	52.8	48.8	n.a.	-20.2	-15.9	-10.9
All Female-Headed Families with Children	71.1	82.6	80.8	77.8	-17.9	-23.8	-19.9	-12.0
White	70.2	78.2	77.1	73.9	-25.1	-29.1	-23.6	-14.0
Black	72.3	88.6	85.7	83.2	-11.2	-18.0	-16.5	-9.9
Hispanic	n.a.	86.9	84.4	83.1	n.a.	-19.6	-15.1	-9.3

[a]Defined as (posttransfer poverty - pretransfer poverty/pretransfer poverty) multiplied by 100. For example, for all families with children the posttransfer poverty rate for 1984 was 17.4 percent (see Table 7). The pretransfer rate was 20.6 percent, so -15.8 is the percentage difference between the two rates.

This result is due mainly to the fact that two-parent families tend to receive social insurance benefits (e.g., social security, unemployment compensation), which are likely to be indexed to prices, while female-headed families are more likely to receive welfare benefits (e.g., Aid to Families with Dependent Children), which are not indexed.

The receipt of transfers among families with children is quite similar, regardless of race, once economic need has been taken into account. Because social insurance transfers are related to past earnings, whites who have higher earnings, on average, than minorities will receive higher social security and unemployment benefits.[14] Therefore, among the pretransfer poor, whites are more likely than minorities to be removed from poverty by transfers because, on average, they receive larger transfer payments and are closer to the poverty line before the receipt of transfers.

- Although the real level and poverty-reducing effects of cash transfers have declined since 1973, transfers still reduce poverty significantly.

Conclusion

Our review of changes in incomes for families with children makes us pessimistic about the prospects for raising incomes throughout the income distribution. While the economy has grown rapidly since the 1982-1983 recession, mean family income in 1984 was still below the 1973 level. And, even if income continues to grow as rapidly as it has in the last two years, there is no indication that the trend toward increased inequality has been reversed. Both poverty and unemployment rates in 1984,

though below their 1982 and 1983 levels, were still well above those of 1979. And, while rapid growth in the 1949-1969 period was associated with relative stability or small declines in inequality, income growth over the last two years has been accompanied by increasing inequality.

Notes

[1]The Census income measure--current money income received during the calendar year--is defined as the sum of money wages and salaries, net income from self-employment, social security income and cash transfers from other government programs, property income (e.g., interest, dividends, net rental income), and other forms of cash income (e.g., private pensions, alimony). Current money income does not include imputed rents, government or private benefits in kind (e.g., food stamps, Medicare benefits, employer-provided health insurance), nor does it subtract taxes, although all of these affect a family's level of economic well-being and are included in disposable personal income.

In addition, family well-being is affected by changes in the number and types of household units. In recent years, the number of households has grown much more rapidly than has the number of persons. Thus, family income can decline even if per capita disposable income increases.

[2]White, black and Hispanic are not mutually exclusive categories. The Census classifies all persons as either white, black or other nonwhite. Because the other nonwhite category is relatively small, their incomes are included in the category "all families," but are not reported separately. Also, the Census classifies all persons as being either of (or not of) Hispanic origin. Thus, persons of Hispanic origin are included in both the "white" and "black" categories, and the "Hispanic" category includes both whites and blacks. All families with children are headed either by both parents or a single man or woman. Because of the relatively small number of single-parent families headed by men, we do not report their incomes separately.

[3]For example, Joseph Minarik (Making Tax Choices, Urban Institute Press, 1985, p. 45) shows that the federal income tax and the employee's share of the social security payroll tax increased between 1965 and 1984 by about 7 percentage points of family income for a broad range of families. It increased from 6.2 to 13.0 percent for a family at half the median income, from 10.2 to 17.3 for a family at the median, and from 13.2 to 20.6 for a family at twice the median. Thus, taxes as a percentage of income more than doubled for those at half the median while they increased by about 56 percent for those at twice the median.

[4]These cohorts do not contain the same families over time. For example, the income of a 30-year-old husband and wife couple with no children in 1949 would not have been included in the early-year mean, but would have been included in 1969 if a child under 18 was living with them. Yet, a similar couple whose youngest child was 5 years old in 1949 would be included in 1949, but not in 1969.

Despite changes in the age structure of the population over time, the mean ages of heads of families with children in the cohort of those 25 to 45 years old was constant over the 1949-1984 period. The mean ages for those who were 25 to 45 in 1949, 1967, and 1984 were 35.1, 35.5, and 35.1 years, respectively.

[5]The federal government's official measure of poverty provides a set of income cutoffs adjusted for household size, the age of the head of the household, and the number of children under age 18. (Until 1981, sex of the head and farm/nonfarm residence were other distinctions.) The

cutoffs provide an absolute measure of poverty that specifies in dollar terms minimally decent levels of consumption. To make them represent the same purchasing power each year, the official poverty thresholds are updated yearly by an amount corresponding to the change in the Consumer Price Index.

[6]Care must be taken in using the official poverty data. When the poverty thresholds were set in the mid-1960s, the poor received few in-kind transfers and paid little in taxes. Therefore, one could at that time legitimately compare cash income with the official poverty lines to obtain a fairly accurate picture of resources available to meet the families' needs. However, during the late 1960s and early 1970s noncash transfer benefits increased rapidly. While these noncash benefits represented only 12 percent of outlays on income-tested programs in 1966, the figure had risen to about 70 percent by 1983. Clearly a better measure of a family's ability to meet its needs should include the value of in-kind programs.

Likewise, taxes detract from the availability of resources to meet needs. If taxes had not changed very much over this period they could be ignored, since the original poverty definition was based on income before taxes. However, the erosion of the zero bracket amount in recent years and the increase in the social security tax rate have increased the amount of taxes poor families have had to pay. Ideally we would, therefore, like to compare needs with income after taxes and all transfers.

Unfortunately, we do not have a consistent time series for poverty which adjusts for taxes and the value of in-kind transfers. Nonetheless, while the inclusion of in-kind transfers would reduce the extent of

poverty in any single year, it would not significantly alter the trends discussed here.

[7]We measured poverty in 1949 by adjusting the official poverty thresholds to account for changes in the Consumer Price Index. This is the same procedure that has been used by the Census Bureau to update the thresholds since the mid-1960s.

[8]If a head did not work at all during the year, we consider him or her as a low earner, along with those whose reported weekly earnings fell below our threshold. Note that not all families headed by low earners are poor. Whether or not the family is poor depends on its own poverty line, which is a function of its family size and its total cash income. For example, consider the head of a two-person family who earns $150 per week for 50 weeks, or $7,500 per year. We classify this head as a low earner, but her/his family is not poor because the poverty line for a two-person family is $6767.

On the other hand, we exclude some poor families from our count of low earners. For example, a head who earns $250 per week would not be counted as a low earner even if she/he worked only 10 weeks last year. If this were the family's only income last year, it would be poor. However, she/he would not be classified as a low earner because her/his family could escape poverty through full-year work.

We also computed our low earnings cutoff on the basis of a poverty line for a family of three--which lowers the cutoff to $159 from $204 in 1984 dollars--but the trend toward an increased incidence of low earnings was very similar to that shown in the text.

[9]Census data on family income do not distinguish between income derived from market and private transfer sources (e.g., wages, dividends, alimony) and that derived from government transfers (e.g., social security, public assistance). As such, Census figures fail to separate the private economy's antipoverty performance from the performance of government cash transfer programs. Households that do not receive enough money income from private sources to raise them over the poverty line constitute the pretransfer poor (a more exact title would be pre-government-transfer poor). Pretransfer poverty reveals the magnitude of the problem faced by the public sector after the market economy and private transfer system (e.g., private pensions, interfamily transfers) have distributed their rewards.

Pretransfer income is determined by subtracting government cash transfers from Census income. This definition assumes that transfers elicit no behavioral responses that would cause income without transfers to deviate from observed pretransfer income. However, transfers do induce some labor-supply reductions, so recipients' net incomes are not increased by the full amount of the transfer--true pretransfer poverty is likely to be somewhat lower than measured pretransfer poverty.

[10]In contrast to the increased poverty among families with children, poverty among the elderly declined dramatically between 1967 and 1984, with most of the decline attributable to increased government transfers.

[11]The income share due to wives' earnings is affected by changes in both the percentage of wives working and the mean earnings of working wives. In 1967, all white wives accounted for 10.6 percent of the mean family income of $30,963, or $3282. Since 43.5 percent of all wives

accounted for this income, the mean earnings of wives who worked was $7545 ($3282/.435).

[12]These computations assume that a husband would not work more if his wife reduced her market work. As such, they are upper-bound estimates of the effects of wives' earnings. Incorporation of husbands' responses would affect the amount of change attributed to wives in any year, but would not affect the trends discussed.

[13]For example, consider an individual who earns $3000. Assume that after the passage of a public assistance program, the person reduces hours of work, earns $2500 and receives a transfer of $1750. Total income is now $4250, $1250 higher than that earned before the program was in place. Because income in the absence of transfers is unobserved, we and the authors of most other studies measure the redistributive effect of transfers as the $1750 difference between pretransfer and posttransfer income ($4250 - $2500), not as the $1250 increase in final income. Incorporation of such labor-supply responses to transfers would lower the antipoverty effectiveness in any year, but would not affect the trends.

[14]Welfare benefits, particularly Aid to Families with Dependent Children, vary widely by region and are lowest in the South. Since a greater proportion of blacks than whites live in the South, blacks, on average, also receive lower welfare benefits.

APPENDIX
How Have Families with Children Been Faring?

Sheldon Danziger and Peter Gottschalk

Our paper evaluates changes in the level and distribution of family income for families with children. As shown in the text in Table 2, the number of such families increased between 1973 and 1984 by 7.1 percent, from 31.1 to 33.3 million. During that same period, however, average family size declined by 9.6 percent, from 4.18 to 3.78 persons and the number of children under 18 living in these families declined by 8.2 percent, from 68.4 to 62.8 million.

Thus, one may ask whether the trends discussed in the text also hold for changes in the economic well-being of children. That is, could children be better off, even if family incomes declined, because the reduced family income was shared among fewer family members? Further analysis of the data show that this is not the case. The trends discussed for family income are basically the same as those for per capita family income and for per capita family income per child--income on average did not increase between 1973 and 1984; the income distribution became more unequal; and the majority of children lived in households whose incomes were lower in 1984 than they were in 1973.

Appendix Table A-1 shows, for all families with children for 1973 and 1984, the share of aggregate income received by each quintile in the top panel and the mean income in 1984 dollars of families in each quintile in the bottom panel for three income concepts:

- family income of families (these numbers are from Tables 5 and 6 in the text)
- per capita family income of families
- per capita family income of children

Per capita income provides a simple adjustment for differences in family size. According to this measure, a three-person family with an income of $15,000 has the same level of well-being as a four-person family with $20,000. Many analysts think that per capita income makes too great an adjustment for family size differences because it does not account for economies of scale in family consumption. For example, a per capita measure indicates that a family of six needs twice the income of a family of three to achieve any specific level of well-being, while the official poverty lines, that do acount for economies of scale, indicate that the six-person family needs 72 percent more income to be as well off as the three-person family. Thus, while the family income data in the text do not make any adjustments for the recent declines in family size, per capita income overadjusts.

We evaluate changes in per capita income for all families and for children only. That is, a two-parent family of four with an income of $20,000 is counted first as one family with a per capita income of $5000 and then as two children, each with a per capita income of $5000.

While the percentage changes between 1973 and 1984 in the means of the three income concepts differ somewhat, the changes in inequality are remarkably similar. The declines in the number of persons and number of children result in no change in the mean of the two per capita measures instead of the 8.3 percent decline in the family income measure. But all three distributions show the same increase in inequality (top panel): the income share of the bottom three quintles declined and those of the top two increased, with the largest decline for the bottom quintile and the largest increase for the top. The trend in the mean income in each

quintile (bottom panel) is quite similar: the lowest income groups fell further behind the higher income groups. For family income, each quintile lost, and the losses declined as income increased; for per capita family income or per capita family income of children, only the lowest three deciles lost.

The trends in the three measures are quite similar because children are very equally distributed across the family income quintiles and because the decline in the number of children per family was not too different across the income distribution. Table A-2 shows the percentage of all children in each of the family income quintiles in 1973 and 1984 in the top panel and the number in each quintile in the bottom. The percentage of children in each quintile varied only from a high of 21.2 percent to a low of 18.8 percent in the two years. The lowest income quintile had 5.3 percent fewer children in 1984 while the top had 13.4 percent fewer. It is because of these changes in the number of children per quintile that the mean per capita family income of the top two quintiles of children increased while their mean family income decreased between 1973 and 1984.

Thus, the shift from family income to family income per capita measures does not alter our conclusions that economic performance was disappointing between 1973 and 1984 and that inequality increased.

Table A-1

The Level and Distribution of Income, All Families with Children, 1973 and 1984

	Quintile Share of Income (Percent)					
	1	2	3	4	5	Total
I. Share of Aggregate Income Received by Each Quintile						
Family income of families						
1973	5.78	12.84	18.00	24.09	38.28	100.0
1984	4.16	11.17	17.50	25.04	42.13	100.0
Ratio: 1984/1973 share	0.72	0.87	0.97	1.04	1.10	1.00
Per capita family income of families						
1973	5.85	12.75	18.21	23.80	39.58	100.0
1984	4.33	11.20	17.37	24.52	42.58	100.0
Ratio: 1984/1973 share	0.74	0.88	0.95	1.03	1.08	1.00
Per capita family income of children						
1973	5.38	12.01	17.86	24.23	40.53	100.0
1984	3.96	10.48	17.03	24.48	44.04	100.0
Ratio: 1984/1973 share	0.74	0.87	0.95	1.01	1.09	1.00
	Mean Income of Quintile (1984 dollars)					
	1	2	3	4	5	Mean of all Families
II. Mean Income						
Family income of families						
1973	9308	20,678	28,988	38,796	63,258	32,206
1984	6142	16,491	25,836	36,967	62,198	29,527
Percentage change	-34.0	-20.2	-10.9	-4.7	-1.7	-8.3
Per capita family income of families						
1973	2288	4986	7122	9308	15,401	7822
1984	1689	4369	6777	9566	16,612	7803
Percentage change	-26.2	-12.4	-4.8	+2.8	+7.9	-0.24
Per capita family income of children						
1973	1825	4075	6060	8221	13,752	6786
1984	1356	3588	5831	8382	15,080	6848
Percentage change	-25.7	-12.0	-3.8	+2.0	+9.7	+0.91

Table A-2

Distribution of Children, by Family Income Quintile, 1973 and 1984

	Family Income Quintile					Total
	1	2	3	4	5	
Percentage of All Children						
1973	20.6	19.7	19.8	20.0	19.9	100.0
1984	21.2	20.2	20.1	19.6	18.8	100.0
Number of Children (millions)						
1973	14.08	13.45	13.57	13.71	13.61	68.4
1984	13.33	12.72	12.64	12.34	11.79	62.8
Percentage Change	-5.3	-5.4	-6.9	-10.0	-13.4	-8.2